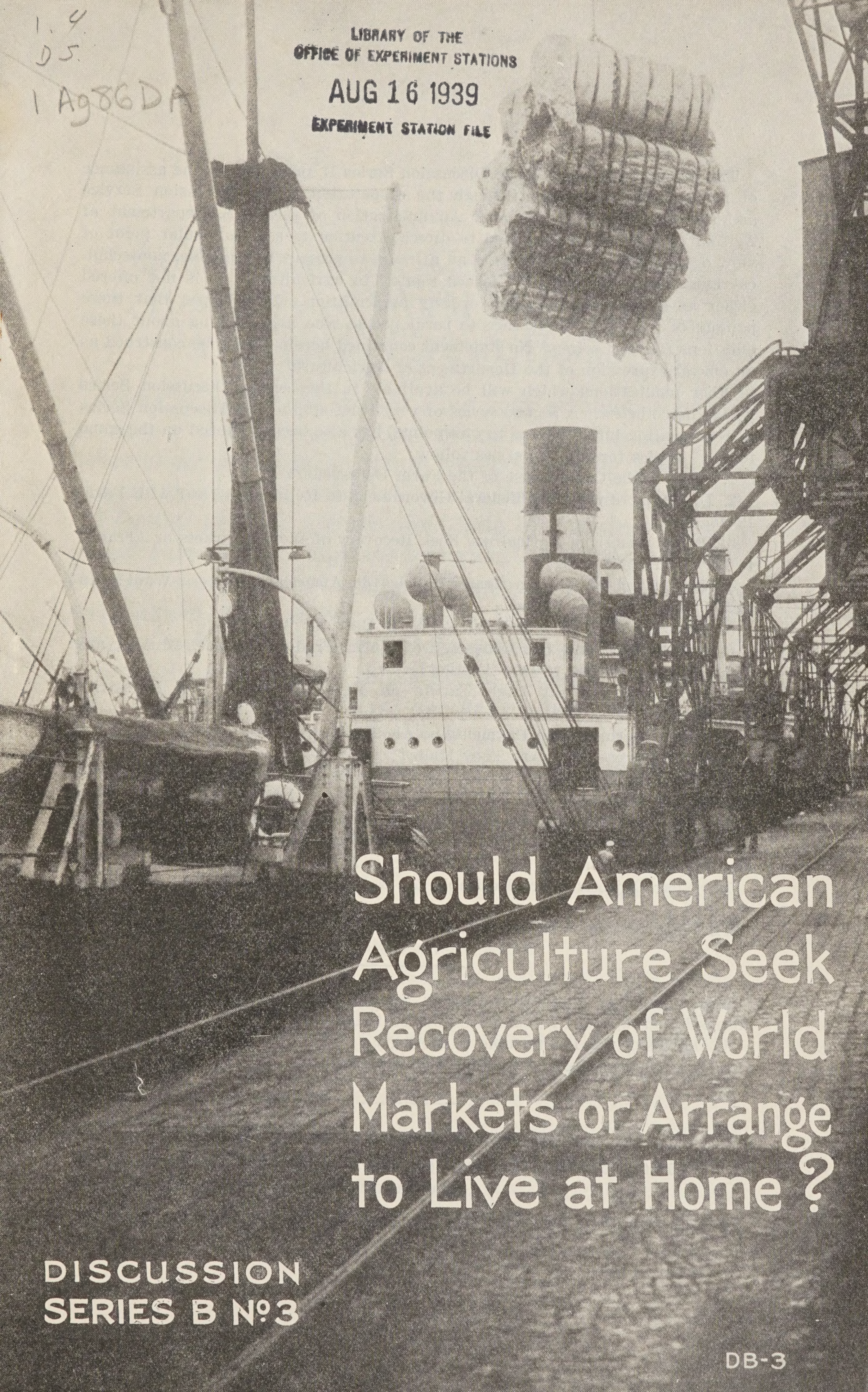

Should American Agriculture Seek Recovery of World Markets or Arrange to Live at Home?

DISCUSSION
SERIES B Nº 3

DB-3

This pamphlet is the third in Discussion Series B, prepared for the assistance of rural discussion groups through the cooperation of the Extension Service and the Agricultural Adjustment Administration of the U. S. Department of Agriculture. It is not intended to direct attention to any particular point of view or conclusion. The series is an attempt to present in readable, nontechnical language a discussion of issues related to agriculture. It is not offered either as a complete or as an orderly presentation. It is hoped that these pamphlets will be of assistance to rural people who are thinking about these questions for themselves. No statement contained herein should be construed as an official expression of the Department of Agriculture.

Other publications which will be available in this series, Discussion Series B, are listed below. A second series of very brief statements, Discussion Series A, representing introductions to viewpoints, has also been prepared on the same topics. Topics for the two series follow:

1. What is the Chief Cause of the Farm Depression?
2. Do Farmers want the Federal Government to Help Them Deal with Farm Problems?
3. Should American Agriculture Seek Recovery of World Markets or Arrange to Live at Home?
4. What Kind of Foreign Trade Policies do American Farmers Want? In Peace Time? In War Time?
5. What Kind of an Industrial Policy is Best for Agriculture?
6. The Farmer and the Consumer of Farm Products—What, If Any, are Their Responsibilities to One Another?
7. Do Farmers Want High Tariffs on Farm Products? On Industrial Products?
8. Should Farm Benefit Payments be Abolished?
9. Farm Prices—How Are They Made?
10. What Kind of Land Prices Would Be Best for Agriculture? For the Nation as a Whole?
11. Will Crop Adjustment Be Necessary or Desirable in Years to Come?
12. What Possibilities and Limitations do Farmers in this County Face in Seeking a Better Balance in Farm Production?
13. What Objectives Are Desirable for Farming as a Business? As a Way of Life?
14. What Should Farmers Seek to Accomplish Through Organization?

Two pamphlets, intended primarily for the assistance of leaders of rural discussion groups and forums, are now available:

1. Discussion: A Brief Guide to Methods.
2. How to Organize and Conduct County Forums.

UNITED STATES DEPARTMENT OF AGRICULTURE

The Extension Service and the Agricultural Adjustment Administration cooperating

Should American Agriculture Seek Recovery of World Markets or Arrange to Live at Home?

Down in New York harbor a big gray steamer is taking on cargo. Stevedores in blue overalls trundle bales and boxes along the wharf. Steam winches, puffing, and panting, swing huge crates high over the ship's side.

Leaning against a convenient pile of packing cases, a young farmer from upstate looks on. His new blue suit is badly creased from his all night bus ride. But his eager, well-tanned face shows no signs of fatigue. It's all strange and new to him, and rather exciting. "Antwerp" is written large on the ship's stern. That's a long way off. He's never been there, nor have any of his friends. He sees nothing familiar in all the cargo that's being loaded with so much hurry and bustle. That big box just dropping down into the hold might be an automobile. Some of the crates on the wharf hold machinery. That's nothing in his line.

His curiosity satisfied, he turns away in search of other novelties when suddenly his eye falls on a pile of cases with a familiar label. *Condensed milk!*

Now milk is something he does know about. Back on the farm in Wyoming County his father's herd of 20 dairy cows pays the taxes and interest on the mortgage and furnishes most of the farm's cash income. Where the milk goes after it leaves the creamery never worried him. To feed folks in New York City, he supposed. But now he began to wonder, wasn't it possible that some of it went into condensed milk? Perhaps in this shipment on its way to Belgium there was some of the milk from his own farm.

"How big a country is Belgium?" he wondered.

"How much condensed milk does it buy?"

"How much comes from the United States?"

"What other countries buy American condensed milk?"

"Do they buy more or less than they used to?"

"Why don't they buy more?"

All these questions buzzed about in the young man's head as he picked his way through bales and boxes back to the noisy street. Then for a few hours, Coney Island, Chinatown and Grant's Tomb took all his attention. But in the big bus that night, bumping home over the dark roads, the picture of the ship and its cargo came back clearer than any of the other sights of the great city.

* * * * * * *

Many other steamers were sailing that day from New York, from Boston, Philadelphia, Baltimore, New Orleans, San Francisco, and Seattle. All of them were carrying products of American farms to markets in foreign countries, to England, Germany, Italy, Japan, China, India, Brazil, Australia.

Of course the ships carried manufactured goods, too. But on every one you would have found pork or lard, flour or apples, tobacco or cotton, or some other item in the long and varied list of the products of American agriculture.

The questions that buzzed in the head of the Wyoming County boy are puzzling a great many older and wiser heads.

What do export markets mean to American farmers?

Ought we to try to increase those markets, or bend all our energy to increasing our markets at home?

Isn't the home market more reliable than the foreign market?

Can exports be increased without harming domestic markets?

Would the whole country, or just the farmers, be better off if exports of cotton should increase? Of wheat, tobacco and fruit?

Is there any hope of selling larger amounts of our farm products abroad?

Farmers Need Wider Markets

What do export markets mean to American farmers? This is a question that raises a lot of argument nowadays. Most people would admit that American farmers need wider markets. Farmers can produce a lot more than they can sell at anywhere near a reasonable price. They have enough land, enough farm equipment and enough labor to grow millions more bushels of wheat, millions more bales of cotton, more tobacco, more corn and hogs, more apples, oranges and prunes.

The argument comes over the question—to whom ought the farmer try to sell these products?

Some people say—to our own American housewives, to provide more and better food and clothing for the families of America.

Other people say—to the industries of America, whose capacity to use farm products in other ways than as food and clothing has only begun to be explored.

Still others say—to the families and industries of the world, no matter where they are located.

The farmer, if he stops to think a moment, of course realizes there are millions of poor families in this country, and hundreds of millions in foreign countries, that want and need more food, more bread, more meat, more milk, more butter and cheese. Millions of poor people in New York, Chicago, London, and Paris are going to shiver this winter for lack of warm clothing and blankets. Millions

of American, French, German households need more sheets and towels. If all these needs could be satisfied, American farmers wouldn't have to worry about flooding their markets. They could work themselves from morning till night and still be able to dispose of all they could raise.

A Tough Question

There's no doubt that city people here and all over the world need all the things the American farmer can grow, but how are they going to buy what they need? What will they use for money? Or what will they use to exchange for farm products?

When we come bang up against tough questions like those it's sometimes a good plan to back up a bit in order to get a better view of the situation.

Background

There have always been two distinct and separate markets for American farm products, the foreign market, and the domestic market. The foreign market, curiously enough, was the more important to begin with. In colonial days, outside of New York, Philadelphia and Boston there weren't any domestic markets. Practically all the colonists were farmers (either part-time or full-time). They couldn't get very far trying to sell to each other. That would have been almost like the foolish women of a certain city who planned to get rich by taking in each other's washing. But foreign markets saved the colonists from that difficulty at least. On the other side of the ocean there were plenty of city people ready to buy American cotton and tobacco. Down in the West Indies the sugar planters bought American corn, wheat, bacon and hams.

It was a good trade. Both sides profited. For the new settlers, in particular, the markets in Europe and in the West Indies were vital. They were the sources of cash income that could be converted into household goods and

farm equipment, things which were always scarce in new settlements. It is hard to figure out how the colonists could have managed without foreign markets. Probably, had foreign markets failed to develop, the whole colonial scheme would have been given up and the new settlers would have gone home discouraged with the new enterprise.

Trade with Europe and the West Indies was so important that when the mother country tried to control its direction, the colonists rose in their wrath, declared themselves independent, and fought a long and costly war to prove the fact.

They won the Revolution, with the aid of France, and cut the political bands that tied them to England. But that didn't cut the trade relations. After the Revolution American farmers continued for a long time to find their best markets abroad.

This was still true at the time of the War Between the States. The bulk of our cotton went abroad at that time. Even for 50 years after this war no one seems to have worried as to whether American exports of farm products were worthwhile, whether they ought to be pushed or checked. Like Topsy they just grew, and they grew amazingly fast. Exports were the key to westward expansion of American farming. Wheat from hundreds of thousands of new farms in Oklahoma, Minnesota, the Dakotas, Nebraska, and Kansas found a good market in European cities. After wheat, cattle and meat products ranked as top-notchers in export trade. Prices were low, but Europe was ready to buy unlimited quantities.

This was a period when American railroads and other borrowers were beginning to pay back the huge loans they had gotten years earlier from English, Dutch, and French bankers. America was a debtor nation. We were still importing from Europe a large part of our manufactured goods. We couldn't get steel rails, machinery, and house

furnishings from Europe without paying for them. We didn't pay with money; we paid with wheat, cattle, and cotton. American farm products paid for a large part of our imports, and of our debts, too. It's no wonder they poured out in a great flood.

There seemed to have been few fears about export trade in American farm products until a few years after the Spanish-American War. Everybody on this side of the water seemed convinced not only that exporting was a good thing for farmers; it would have been hard to see how we could have managed at all without foreign markets.

American manufacturers smiled on a trade that gave farmers cash to buy hardware and farm implements. Millions of factory workers in English, French, and German cities were able to live better than ever before on the cheap food from American farms. Only one group was unhappy. That was the European farmers whose market was reduced by American competition. They demanded protection by import duties, and in France and Germany their demand was granted. England continued her free trade policy and English farming had to undergo a drastic readjustment.

Just Before the World War

Foreign tariffs at that time didn't bother American farmers a great deal. They were feeling happy about things that were happening at home. Beginning in 1897 prices of agricultural staples like wheat ended the long toboggan slide they had begun in the 70's. Farm prices started uphill again. Factory goods rose, too, but not so far nor so fast. Thus farmers were fully repaid in the home market for whatever loss they suffered abroad.

Don't get the idea that foreign markets disappeared. They did not. Before the War we were still exporting 20 percent of our wheat, 65 percent of our cotton, 35 percent

of our tobacco and 10 to 15 percent of our pork and lard. But there were signs of a coming readjustment in American farming, perhaps a balancing of domestic against foreign markets.

The War

This pamphlet doesn't aim to repeat the old story of what the War did to American farming. Most people are familiar with the story of how the enormous purchases by the Allies of foodstuffs, horses, leather, and many agricultural raw materials sent farm prices sky high. Demand was away ahead of supply and American farmers set to work to grow more grain, raise more hogs and beef cattle than they had ever dreamed of being able to sell. Everyone knows how many farmers bought land at boom prices, how they bought tractors and other new equipment, laying plans as if they expected the War, and war-time prices, to last forever.

But they didn't last forever. They lasted only 4 years. When peace came it found American farming stretched way beyond the demands of its home market, and way beyond any foreign market that it was likely to enjoy in the next generation.

Everyone knows how prices of all farm products shot down like the stick of a burned-out sky-rocket after 1919. Farmers' costs, interest and taxes especially, showed few signs of coming down and the prices of goods bought by farmers came down much more slowly than the prices of what the farmer sold. The problem has been alive since the war. It still is alive.

But although everyone knows what happened, very few people agree on what to do about it.

Can farmers hope to recover some of the lost foreign market? Or should they forget about it and put all their attention on selling more at home?

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What are they going to do about it? If farmers were sure about the answer to that question there would be no reason for writing this pamphlet. Shall they seek recovery at home or abroad?

What is Export Trade Worth to American Farmers?

Some people say that the American export trade is hopelessly down and out. Others think it would be unfair to base our calculations of the value of export trade to American farmers on the figures for 1934 or 1935. They may be the latest figures available, the most recent news about foreign markets, so to speak, but they can hardly be said to give a true picture of the situation.

Those who look forward to a comeback in American foreign trade say, suppose you were thinking of measuring a man's strength. You'd perhaps call a doctor to give him a physical examination, but you wouldn't get him up out of a sick bed to do it. That's about the case with foreign trade the world over. It was awfully sick for four years beginning in 1929 and is now only beginning to stagger around.

For every dollar's worth of 1929 world trade there was left in 1933 only 35 cents. Of course the trade of the United States went down, too. In fact it went down faster and farther than that of any other big country. We had only 32 cents left in 1933 of our 1929 foreign-trade dollar. In terms of quantity, exports of farm products, as a whole, didn't fall off quite as fast as other American exports but that was because farmers took an awful beating on price. At rock-bottom prices, for every dollar of crude foodstuffs sent abroad in 1929 only 18 cents worth was shipped in 1933. Farm exports in 1933 in fact were about $500,000,000 less than they had been some twenty years earlier, just before the World War.

The year 1934 showed slight recovery, but a serious complication set in with the drought of that summer and a

bad relapse occurred in the first half of 1935. The patient is still very ill—he is so far from normal health that we must go back a few years for our strength tests.

Suppose we take the years 1925–29 as the basis for calculations. In those years the total value of farm exports was fairly stable. How important were foreign markets then to American farmers?

There are several ways of making this estimate, just as there are several ways of getting a man's strength, by testing his legs, or his arms, or his heart and lungs.

One measure of the strength of exporting in the American farm business is the amount of land utilized for exports, both of crops and of animal products. One estimate puts the acreage cultivated for exports in 1925–29 at sixty-one million out of a total area in crop of three hundred sixty-nine million. That's one acre in every six used for sales to foreigners. The sixty-one million acres were equal to all the crop land harvested in 1929 in the six states—New York, Pennsylvania, Ohio, Indiana, Illinois, and Michigan.

Of course farming for foreign markets wasn't evenly spread over the whole country. Farmers in some regions have always been much more interested than others in foreign markets. In the cotton belt more than 50 bales out of every hundred were grown for foreign mills. Tobacco farmers found markets abroad for 35 pounds out of every hundred they raised. Growers of wheat and rye sold 30 bushels abroad out of every hundred harvested. In the corn belt, according to Professor T. W. Schultz of Iowa State College, about 158 million acres were used for 4 feed crops. Exports of feeds and livestock products accounted for 17 million acres. Accordingly, he says, the corn belt was more than 10 percent too large to fit the home market.

Growers of some kinds of fruit, such as apples and pears, are as much interested in exporting as cotton growers or tobacco, wheat, or corn belt farmers. Other fruit growers, dairy farmers, poultry raisers and market gar-

deners would seem to have had but little direct interest in foreign markets. Indirectly, however, as will appear later, their interest is substantial.

Our exports of all farm products in the years before the crash of 1929 ran about $1,900,000,000 a year. That's at wholesale prices. At farm prices the value of the exports was close to $1,500,000,000 a year, or between 12 and 13 percent of gross farm income. Those figures give a general view of the meaning of farm exports in 1925–29. One acre of every six used for exports—one dollar out of every eight of gross farm income coming from export sales.

What has happened since 1929 can be told very briefly. Export markets furnish outlet now for only 20 million instead of 60 million acres. Instead of $1,500,000,000 a year, agricultural exports now give farmers only *one-third* that amount, or $500,000,000. One dollar in every 11 of farm income now comes from export sales. It's hard to grasp what a drop of a full billion dollars in the value of export sales of farm products has meant to American farmers. A billion dollars is more than the farm value of all the crops harvested in 1934 in Texas, California, and Iowa, with North Dakota thrown in for good measure.

If the loss had been distributed equally, it would have cost every farmer about $166 in cash. Of course the loss wasn't equally distributed; it fell heaviest on cotton farmers, cattle feeders, corn and hog farmers, and others specializing in exported products.

Whv the Slump in Exports?

Those who are eager to continue trade relations with the outside world inquire, "Can we gain some ground by exploring the question, Why the slump in exports?".

Why should Great Britain, Germany, France, Italy, and many other countries suddenly decide to get along with much less American lard and pork, bread grains, tobacco, and fruit than they used to buy?

When a retail grocer finds his sales falling off he will usually find the reason to be either (1) his customers haven't the money and are doing without, or (2) they are getting the goods somewhere else. That's just about the situation of Europe with respect to our exports. Europeans have had two very good reasons for not buying from us.

> (1) They have found it a hard job to get dollars to pay for American goods—and this has applied to American manufactures as well as to American farm products.
>
> (2) They haven't wanted to buy American lard, wheat, or tobacco. They have gotten the idea they'd better grow their own.

We ought to look into each of these reasons separately.

European countries, the chief buyers of American goods, used to have a number of ways of earning dollars. Of course they sold us some of their merchandise, several hundred million dollars' worth every year. They fed and lodged and amused our tourists, earning a tidy sum that way. They carried freight for us in their ships. Thousands of immigrants from Europe, living in the United States, sent back millions of dollars each year to relatives and friends in the old country. Finally, foreigners got hundreds of millions of dollars in interest each year on capital borrowed years ago by Americans from English, French, Dutch, and other investors. With such liberal supplies of funds foreigners could buy American goods liberally.

That was before the War. The situation now is quite different.

Due to the Hawley-Smoot tariff, the highest tariff we have ever had, and the depression, we have cut down, our purchases of Swiss watches, Belgian plate glass, English woolen goods, Italian olive oil, and Czech glassware and shoes. Our tourists don't spend nearly as much money at foreign resorts as they used to. The flood of immigrants

that used to pour through Ellis Island has become a mere trickle. Immigrants who came years ago have largely stopped sending money home. All these changes have choked off the flow of dollars to Europe. They have made it harder for foreigners to acquire dollars.

But there's one change that looms bigger than all. We are no longer a debtor nation; instead we are the world's greatest creditor. It is a familiar story, how we bought back our securities while Europe was at war, and after that how we poured out billions in loans to borrowers in all parts of the world. Of course we still owe foreigners hundreds of millions, but when the account is footed up you find that we have a balance due us of about 17 billions. Some ten billions of that is war debts on which payments have been almost entirely suspended. Leaving war debts out of the picture, the world owes us in the neighborhood of six and a half billions net. On this amount we are receiving each year about 325 millions in interest and dividends.

It doesn't take any deep study of international trade and finance to see why, under these circumstances, foreigners have had to cut down their purchases of American goods. European countries are very nearly in the position of a farmer who in prosperous days had a good income from mortgages on several neighboring farms. He got some of his living off his own farm but had plenty of cash to buy what he wanted in town. That was before the depression. After prices came down he stopped doing any buying in town. He has sold his mortgages and has had to mortgage his own farm. Like Europe, he has changed from a creditor to a debtor position.

But that's not all. The American farmer has other troubles. It's bad enough that his best customers can't get dollars. Worse still is the attitude they take toward products from the United States and other countries—to products from beyond their borders.

European countries have been steadily putting up the bars against imports of American and other overseas food-

stuffs ever since the end of the World War. The war scared them. It showed countries like England and Germany the danger of having supplies of food cut off in war time. During the war about 40 million acres went out of cultivation in Europe, while millions of farmers were fighting instead of farming. But when the fighting stopped they went right back to growing food. Now they are farming about 10 percent more land than before the War.

The farmers of Germany, France, Italy and other European countries couldn't do this by their own efforts. Their governments helped them in many ways but principally by heavy taxes on food imports from foreign countries, including the United States.

What Happened to Wheat

See what they did to wheat. Wheat used to be the great staple of agricultural commerce, flowing from one country to another almost as freely as gold. Now there is hardly a country in the world that doesn't take government action of some sort to keep wheat imports down. The big consumers of American wheat, Germany, Italy, and Great Britain, just after the War imposed no tariff duties; France charged 25 cents a bushel. We were then sending them about 200,000,000 bushels a year. Look at the picture in 1933:

United Kingdom taxed our wheat 4.3 cents per bushel.
France taxed our wheat 85 cents per bushel.
Italy taxed our wheat 107 cents per bushel.
Germany taxed our wheat 162 cents per bushel.

Flour duties were of course stepped up proportionately. In 1933–34 we shipped no wheat, not a single bushel, to Germany or Italy, one million bushels went to the United Kingdom and 38 thousand bushels to France.

But our friends across the water didn't rely on import duties alone to keep out American wheat and flour. They told their millers how much foreign wheat they could mix with domestic wheat. Italian millers at one time were re-

quired to use 99 percent domestic wheat. When you add to these handicaps, import monopolies and bounties to domestic (European) farmers, you can understand why sales of American wheat fell off.

Import duties have been compared to walls separating countries, preventing the free flow of commerce. The various countries of the world have been busy as bees in the last 15 years raising these walls. Worse than the tariffs are the restrictions on importation by quotas, licenses, etc. It is as if your neighbor, not content with building a high wall, had sprinkled on broken glass and crowned the whole with several feet of barbed wire.

The higher the tariff barriers went up, the higher the stocks of wheat piled up in American elevators.

The Story of Pork

The story of the exports of pork products is even more tragic. Germany used to be a big market for American lard. Eight or ten years ago we used to sell 200 millions pounds a year to the Germans. In spite of duties ranging from 5.4 to 16 cents a pound, we sold Germany 126 million pounds in 1933. But the next year the duty was raised still higher and a limit was set on the amount of foreign lard that would be taken—40 percent of 1931–33 imports. Result, our lard exports to Germany in 1934 were half the 1933 figure. Then all exports to Germany were hit by restrictions on exchange. In 1935, a year when we had little lard to sell, Germany has taken no American lard.

Just at the moment we have little wheat and lard to sell abroad. But the problem of the long list of American farm products that are blocked from foreign markets by rising tariffs, restrictions, and quotas remains with us just the same .

A while back we said there were two reasons why people across the Atlantic were buying less of our foodstuffs and other farm products: (1) They hadn't the where-

withal (the dollars) to pay for our stuff; (2) they seemed to have made up their minds to buy as much as possible from their own farmers.

Some Countries Are In A Tight Place

At bottom these reasons come down to about the same thing. Countries like Germany and Italy, for example, are in a pretty tight place. Millions of their people are factory workers. Now factories can't operate without raw materials. Germany lacks cotton, rubber, tin, raw silk. Italy has no coal and very little iron. Each of these countries has to make interest and other payments to foreigners. Purchases of cotton or coal, and transfers of money abroad have to be paid for either in gold or out of the surplus of exports over imports. Few of these countries have any gold to spare. Most of them have prohibited exports of the yellow metal. They have just two ways of producing an export surplus: (1) by increasing exports, (2) by cutting down imports.

The situation of these and other countries of Europe is not unlike that of a farmer who must buy fertilizer and pay interest on his mortgage. Both expenses must be paid out of a surplus of cash received from the sale of farm products less living expenses. The cash surplus can be raised by selling more grains, more cotton or more milk, or by cutting down on expenses. If he can't do either, he'll have to draw on his bank account.

Foreign countries find it difficult to increase export sales, largely because of the tariffs which they have all been raising against each other. Our Hawley-Smoot Act of 1930 discouraged a lot of countries from trying to swell their exports. The only thing left was to cut imports, which they have done. Result, smaller markets for American farmers.

European governments are determined to protect their farmers against foreign competition whether it be from

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the United States, Canada, Argentina or Australia. But present restrictions have gone far beyond anything which could be defended as agricultural protection. It isn't only the French, German, or Italian farmer that is being protected. The banks and the money of these countries are in danger. So tariffs on farm products are part of a general scheme of maintaining a balance of payments and protecting the badly shrunken gold reserves that maintain European banks and money systems.

So it's not very far from the truth to say that the big reason that European industrial nations are buying less American farm products is because they can't find the dollars to pay. They need to import both food and industrial raw materials. But wheat, pork and lard, fruits, and even tobacco, they can grow at home. The cost will be high, but still it can be done. Cotton, on the other hand, wool, rubber, tin, mineral oil and other raw materials they must buy abroad. These purchases together with interest payments, have first claim on the limited supplies of dollars or other foreign currencies. When they are paid, there isn't much left to buy American wheat, hams, and bacon.

What Can American Farmers Do About It?

Now perhaps we are ready to consider the big question in this pamphlet, namely, "What, if anything, can American farmers do about it?"

First, let's have a look at what the people say who are inclined to favor world markets. They say that there are really two questions to be answered:

(1) How are we going to persuade English, German, French, Belgian, Swedish, Italian people to buy more Corn Belt hams and bacon, more California oranges, more Texas cotton, more Virginia apples, more Kansas wheat or more Minneapolis flour?

(2) What will it cost us to expand our export sales?

Both of these questions are important. American export trade in farm products is in a bad hole. It can be

gotten out, but, if it is, there will be a bill to pay. Farmers must decide whether or not the cost will be too heavy; whether they want to seek recovery of world markets at all.

Some people say—agriculture will be better off if it concentrates on the home market.

Others say—the foreign market is well worth the effort required to get it back.

In answer to the first, the simplest remedy is to buy more foreign goods and more foreign services. If it's lack of dollars that troubles our foreign customers, then the only way to set that right is to make it possible for them to earn more dollars.

We have tried lending them the dollars. Our bankers sold American investors billions of foreign securities in the years between the World War and the 1929 crash. But that couldn't keep up forever. After a while, our loans began to look more like giving money away. It doesn't look as if Americans with money to invest were soon going to begin foreign lending again in a big way.

More liberal spending by American tourists helps our export trade. Our tourists in fact are now beginning to spend more money in foreign resorts. That puts more dollars into the pockets of our European customers. But tourists' expenditures are still far behind the figures of 8 or 10 years ago. And there isn't much that farmers can do to make tourists go abroad or to make them spend more money while they are over there.

Looking over the other items in our accounts with foreigners, we find that aside from loans of new capital, gold shipments and imports and exports of goods, there are no items that can be stretched very much one way or the other. Things like interest payments and freight charges do change from time to time, but usually they move as the result of changes in other items.

We've barred out new loans for the present at least. We've already gotten almost all the gold that Europeans

can afford to let go—including some that they couldn't afford to let us have. Just last year we took more than one billion net, and we'll take even more this year.

That leaves us just one big possibility—increased imports. Foreign countries are now selling us about a billion and a half dollars worth of their goods each year. The funds they receive in payment gives them their biggest single source of dollars to buy American exports. If they could sell us a billion, or even 500 million dollars, more of their goods every year they could afford to buy a billion or 500 million more of our automobiles, machinery *and farm products.*

Can We Safely Buy More Foreign Goods?

Aren't we buying all we can afford from abroad? How can we arrange to take any more?

A billion and a half dollars worth of foreign goods looks like a lot when you lump it all together. But we are a big nation and in spite of the depression our total national income in 1934 was probably about 45 billion dollars. That's the total we spent for everything, for food, clothes, house rent, moving pictures, gasoline and ten thousand other things. Now compare that with imports and you will find that less than 3 cents out of every dollar of national income was spent for foreign goods.

And only a small part of that 3 cents went into the pockets of our European friends. Most of our imports were such things as raw silk, tin, rubber, tea, coffee and other products of Asia, Africa and South America. All these are on our free list and have been for many years. They don't compete with any American industry and so we let them come in without paying anything to Uncle Sam's customs collectors.

Europe doesn't produce tea, coffee, tin, rubber, or raw silk. Germany, France, and England are industrial countries; they want to sell us highly fabricated articles, fancy

textiles, chinaware, small metal wares, glassware, leather goods, and a thousand and one knickknacks and specialties. How much do we buy of these things? Very little. In the year 1934 our total purchases of foreign manufactured goods amounted to 350 million dollars. That was less than 1 cent of every dollar of our income.

There's a reason.—Of course there's a reason. Two reasons, in fact.

Reason No. 1.—We make certain industrial products such as typewriters, harvesters and automobiles in our own factories very well and more cheaply than they can be made abroad.

Reason No. 2.—The tariff.

Everyone knows the United States has long had a high protective tariff, designed principally to benefit manufacturing industries. But not everyone knows that the tariff wall has been rising pretty steadily ever since the Civil War. And few realize that the last tariff act, the Hawley-Smoot Act, raised our wall against imports so high that we ranked with Russia and Spain among the highest tariff countries in the world.

Will Farmers Gain or Lose?

There seems no reason to doubt that reducing some of our high tariff duties would promote the flow of imports. It would give foreign countries more dollars with which to buy American goods. But what would be the effect on American manufacturing? How many factory workers would be thrown out of work if we should go to work in earnest to reduce industrial tariffs?

The answers to these questions are important to farmers. We have already in this country 9 or 10 million persons unemployed. Their reduced purchasing power is one of the causes of farm depression. If the gain from tariff reduction in the way of expanded exports should be offset by losses in the home market, then the farmer is back again just where he started.

Those who favor lower tariffs say: "We admit that some lines of industry will suffer, for a while at least, by tariff cutting but it is possible to exaggerate the additional amount of unemployment that would result. Millions of American workers are employed in industries not exposed to foreign competition, on the railroads, in coal mining, in public utilities, wholesale and retail selling, and in the building trades. They would not be hurt; they might even be benefited by tariff reduction. Workers in export industries, producing automobiles and machinery of various kinds, would gain rather than lose."

A great deal would depend also on how the tariff reductions were made. A farmer has two ways of clearing a wood lot. He can slash it all to the ground, or he can go through carefully, cutting out the dead wood and the young growth that seems least promising. Some people hold that this would probably be the best way to proceed with the tariff.

What Would Foreigners Do With Their Dollars?

Reducing our tariff would provide Europeans with more dollars.

But would foreigners use the additional dollars they earned to buy more American goods? Wouldn't they use them to pay off their debts to us, or to buy back some of their gold, or perhaps to travel in the United States? And if they bought goods, might they not buy more machinery or more automobiles, instead of more lard or more tobacco? Finally, what's to prevent their using their American dollars to buy more farm products from Canada, Argentina, or Australia rather than from the United States.

It is impossible to state exactly how the additional dollars would be used. A part of them might be used for each of the purposes mentioned. Before the War the answer would have been, " The dollar will sell to the highest bidder in the open market. If bankers bid higher than im-

porters they will get the larger share." But now governments have taken a hand in the control of foreign exchange. Germany, for example, takes charge of all supplies of foreign currencies and parcels them out to various uses. How much of the new supply of dollars would go for purchases of American farm products would be largely determined, for the present at least, by government policy. Government policy naturally would have to take into consideration the needs of consumers, for it is clear that in certain European countries more food and cheaper food is a pressing necessity.

Imports of foodstuffs into England, Germany, and Italy have shrunken greatly in the past 5 or 6 years and the deficit has been made up only in part by bigger home crops and larger domestic slaughter of animals. The result has been rising prices of foodstuffs, throwing them out of line with wages and with prices of manufactured goods. In Italy this effect has been particularly marked. It is difficult to predict how far the process of squeezing the consumer of foreign goods can be carried.

It is possible that none of the new supply of dollars would be used directly to buy American farm products. Those in favor of lowering our tariff say that American farmers would benefit indirectly from the enlarged supply of dollars going into other uses. Larger interest payments by foreigners would increase the purchasing power of the investing class in America and would thus stimulate domestic trade. If foreigners wanted to buy back their gold that would tend to raise prices over there and so would improve the foreign market for American goods.

Another Possibility Examined

One more possibility should be considered. Suppose that American exports did increase as the result of lowering our tariff—and suppose further that foreigners bought

our manufactured goods instead of our farm products, how then could American farmers gain?

That's an easy one, say those favoring lower tariffs.

When exporting industries, steel mills in Pittsburgh and automobile factories in Detroit, begin to take on thousands of additional workers, that means prosperity and the expansion of the home market, they assert. Farmers surely couldn't lose by such a change.

Those Foreign Tariffs

But still we haven't disposed of those foreign tariffs and other restrictions that block the road against imports of American foodstuffs. As long as they stand in the way, how can American farmers hope for larger sales abroad?

Is there any reason to believe that if we drop our tariffs on lace, glass, cement, aluminum wares, woolens, and silk goods, foreigners will be willing to do something for us on wheat, lard, and fruit?

This is a serious matter. We must reckon with the new developments that have taken place in European agriculture since the World War, and since the armistice. All the acres that were thrown out of cultivation by the War have now been put back into farms. They have now 3 hogs over there for every 2 they had before the War, and crop production also has expanded rapidly. They haven't been working in haphazard fashion. They have reclaimed soil (the Dutch have made a lot of new farms on the bottom of the Zuyder Zee); they are using better seed and are using better methods against insect pests.

Countries like Germany and Italy seem to be committed to thoroughgoing schemes of economic planning, in which agriculture will play a much larger part than before the War. However it is still not at all impossible that the most extreme of the obstacles to imports of foodstuffs might be removed.

Competition From New Lands

The question still remains, if the obstacles should be removed wouldn't that benefit the newer countries like Canada, Argentina, and Australia more than it would benefit ourselves?

As for competition with Canada, Australia and Argentina, American farmers have had to contend with that for a long time. Even before the War, Kansas wheat had to compete with Argentine wheat in the Liverpool market, and our meat products, particularly beef and lamb, had to meet both Argentine and Australian competition in Europe. But if we find we can no longer compete in the grains and in lamb and beef, we shall have to rely for exports on products such as lard, cotton and tobacco where there is as yet no serious competition from newer lands.

Tariff Bargaining May Help

Tariff bargaining may help American farmers to get more of their products into foreign markets. We may be able to do some trading with foreign governments. For instance we might knock a few bricks off our tariff wall, making it easier for England, let us say, to sell us woolen cloth, if the English in return will clear away a few of their barbed wire entanglements that keep out American pork and apples. Several agreements of this kind have already been signed with Cuba, Sweden, Brazil, Belgium, Colombia, Canada, and the Netherlands; others are on the way.

The Cubans reduced their import duty on American lard in September 1934 from $9.60 a hundred pounds to $2.30 per hundred; result,—we sold them twice as much lard in 1934 as in 1933.

Of course we had to give Cuba something in return, so we lowered our duties on Cuban sugar and tobacco. But we guarded our domestic markets by setting limits to the amounts of sugar and tobacco that we would take at the lower duties.

Many people believe it would probably be a mistake to hope for too much from tariff bargaining. It's a slow process and protected groups on both sides will fight tariff cuts. We might ask ourselves why did those folks over on the other side want to build their tariff walls so high? Evidently they were afraid of something. What they feared was War—War of two kinds, actual warfare fought with bombs and cannon, and economic war, fought with tariffs and cheap money.

Now if we could calm their fears, wouldn't they perhaps take down their walls of their own accord?

The question of actual warfare vs. peace will be discussed in pamphlet No. 4 in this series. We've already said something in this pamphlet about tariff wars. Something now should be added about money wars.

Money Warfare

Money wars are impossible as long as all nations are on the gold standard, that is as long as they allow gold to move in and out freely, and as long as they redeem their currencies in gold. But just at present most of the great trading nations are "off gold." As soon as a nation quits the gold standard, it can cheapen its money, and then use the cheap money to win a larger share of world trade, at least temporarily. If the English pound falls from $5.00 to $4.00, in American money, Americans are able to buy English *money* more cheaply, and that means they can buy English *goods* more cheaply. English consumers, on the other hand, find it harder to buy foreign goods and so for a while the cheapening of the pound acts like a protective tariff.

American monetary policy operated this way in 1933. The Government's gold-purchase program, leading to reduction in the gold content of the dollar early in 1934, enabled foreign buyers of such American products as cotton to buy more dollars for the same amount of gold, and so to pay more, in dollars, for the cotton and other goods

that they bought. At the same time, American buyers of foreign goods had to spend more dollars to buy the same amount of foreign currency, and so had to spend more for the foreign goods that they bought.

Countries that feel their trade harmed by cheapened currencies can do two things; they can leave the gold standard and cheapen their own money, or they can build up their tariff walls. Sometimes they do both.

If the big trading countries could get together and agree not to engage in any more money wars, then they might think it would be safe to take down their tariff walls, or at least to knock off the top layers.

Other Viewpoints

Well, we've heard quite a lot from the people who would like to see us work hard to get our foreign markets back. What about the others, the ones who think we're better off the less dependent we are on overseas trade?

They say it is natural for American farmers to look for recovery on the road to foreign markets. It is a familiar road, much travelled by generations of American farmers. But the road is in pretty bad shape. Fences have been built across it and at each fence there sits a tax collector, or perhaps several.

The foreign market is shrunken and unpromising. Foreign governments are pledged to protect their own farmers. What should American farmers do about it? Shouldn't they wake up to the fact that it was the foreign markets of the War years that got American farm production all out of line? Shouldn't they turn their backs on the road that leads abroad, and seek recovery at home?

Home is a friendly place. We feel safe there. The home market is nearer; it seems steadier, more secure than foreign markets. Foreign markets are often disturbed by wars, and rumors of wars, and by business crises and depressions.

What are the facts about the home market? Is it a better market, a safer market than the foreign market?

We have more or less regular business depressions. Do they come from the outside or from the inside? Do they arise out of our business relations with foreign countries, or out of the relations between various business groups, capitalists, bankers, workers, farmers, within the United States? But how would you get any facts on the subject?

The books about business cycles give plenty of domestic causes of business crises,—bank failures, over-expansion of railroads, speculation in stocks. But foreign events, also, are listed—the Russo-Japanese War, the Great War. Evidently there are plenty of reasons right at home for our hard times, although every once in a while they are made harder by our relations with foreign countries.

We couldn't, then, guarantee that by cutting off trade relations with other countries we'd have no more hard times. It is true that hard times are catching, like the measles—but so are good times. We'd probably have to admit that there's no absolute security to be found in producing for either home or foreign markets. Both, under present conditions, are subject to disturbance. In this situation which course should farmers take?

That brings up the question of the purchasing power of the home market. The United States is the richest country in the world. Just now it is not as rich as it was in 1929; it has been harder hit by the depression than some other countries. But it still has a good lead. The standard of living of our city people is on the average higher than that of the city people of England, Germany, France, or Italy. An American factory worker's family consumes more beef and pork, more butter and eggs, more fresh milk, more fruits and vegetables than families of factory workers abroad. We are a great industrial nation. Our factories consume vast quantities of raw cotton, wool, leather, and other raw materials that are produced on American farms.

That being the case, why bother about export markets? Why not seek economic salvation for the American farmer at home?

Seeking Recovery at Home

There is a large group of persons in the United States, including many farmers, who believe that even should there exist an opportunity to recover world markets, American energies should be concentrated rather on the policy of "live at home."

This group holds that a dollar spent for foreign goods directly benefits producers abroad, while a dollar spent for American goods directly benefits domestic producers.

This group further holds that to permit competition with foreign producers in the home markets, whether in agricultural or industrial products, is bound to take from the American farmer and working man part of their legitimate market. It is unfair competition, this group holds, emphasizing that many of the other countries have lower living standards, lower wages and cheaper land. Why not, this group asks, jack up tariffs in the case of products now being imported? They point to imports of wheat and corn made after the drought of 1933 and assert that, while these products came in over a tariff wall, the tariffs should have been higher so as to exclude any and all imports of wheat and corn.

This group, like most groups, is not unanimous in all of its views. Some members of the group hold that this country should erect high tariffs on pulp wood and other forest products so as to provide a larger share of this market for American producers. Those who advocate this assert that employment, resulting from such protection in the wood industries, would more than adequately offset any increases in the cost of products consumed by farmers made from wood because this would provide incomes with which to purchase farm products.

This group is generally referred to as "nationalists." They subscribe to a view-point that this country is extremely rich in varied low-cost raw materials; that few countries could practice self-sufficiency to the same degree as the United States. They assert that our present dependence on other countries for certain raw materials, such as rubber and manganese ore, could be eliminated by tariffs which would stimulate the production of substitutes in the case of rubber and stimulate the production of manganese from deposits now existent in this country, but which their owners state cannot generally be worked profitably except behind a high protective tariff.

This group states that self-sufficiency, if carried to its ultimate length, would make it possible for this country to attain higher standards of living than if our production should be carried on in competition with other countries; that a high tariff wall would make for few difficulties in the way of obtaining adequate supplies of practically everything our consumers need.

At the same time, many persons holding the nationalist view-point assert that world trade means entanglement at some point or other in the affairs of other countries, involving competition for world markets, certain to lead to war or strained international relations, which would be avoidable through a policy of self-sufficiency.

Recently, Mr. Wheeler McMillen, editor of The Country Home, a magazine, offered what he described as "a new plan to create farm wealth":

> "The idea may be briefly stated;" he said, "instead of paying farmers for not growing particular commodities, the government would pay farmers for producing commodities which we now import. It would pay farmers for growing soil-building crops such as legumes. It would pay farmers for efforts devoted to the prevention of erosion and loss of irreplaceable soil. It would pay farmers for producing non-food crops for industrial uses, in place of the acres now devoted to surplus crops."

Mr. McMillen also states in his article, published in December, 1935:

> "We are still importing large quantities of soy beans from the Orient. The subsidy for soy-bean growers, which would be applicable throughout the Corn Belt and the South, should remove the necessity for these imports and serve the additional purpose of promoting more extensive use of a known and well-established soil-building crop.
>
> "We import considerable quantities of starch and starch crops, some from Europe and some from the Malay regions. This subsidy plan could undoubtedly be applied so as to remove this competition until our own starch production becomes able to stand on its own feet.
>
> "If it were deemed desirable to go into self-sufficiency on a large scale, the idea could be applied to the production of sugar cane and sugar beets, artichokes or other sugar crops, in order to replace with home-grown sugar the millions of dollars' worth which now comes from outside the United States.
>
> "Hemp and flax, and perhaps other fiber crops, might be included among those to be subsidized by the Government. Tung-oil production, flaxseed, safflower, castor beans and other oil crops could be included for the purpose of attracting our own agricultural energies into fields where we now permit foreign farmers to supply most of our markets."

In 1933, a book, "America Self-contained," was published. Samuel Crowther is its author. In it he made a strong plea for greater self-sufficiency. Some of the chapters of this book are entitled: "The Free Trade Myth"; "The Passing of International Trade"; "The War Debt-Hoax"; "The Price of Internationalism." He expressed himself strongly in favor of a policy which would assure the American market to American producers.

Many others have written on this subject and the reader who desires to follow up his interest in this subject will do well to consult the bibliography found in the last few pages of leaflet No. 3, Discussion Series A, which has the same title as this pamphlet.

There is a group which asserts that few of us are willing to support a single, consistent principle on foreign trade. Our self-interest, they say, asserts itself whenever we talk about this problem. For instance, if we are buying something and are paying more for it because there is a tariff on the article, we object. But if we are selling something, we are naturally interested in getting all we can for it, and, therefore, we hold to the view that the product should have a high tariff so as to prevent foreign-made competitive products from affecting our sales and our income.

There is a group which holds to the view-point that we should protect American producers by high tariffs wherever possible but that, in addition, we can expect to continue indefinitely to sell abroad more than we buy. This group asserts that some American products, particularly cotton, are in such demand abroad that the world is forced to come to this country for much of its supply. But this view-point is immediately challenged by another group which states that we cannot sell for long unless we buy or trade so as to admit entry of the products of other countries.

One group viewing the whole problem, asks this question:

"How much can the home market absorb?"

Here is how one member of this group expressed his view:

> "Exporting farmers, in the wheat belt, in the corn and hog belt, in the cotton belt, want to know how the home market is going to absorb all that they have been producing. How are American markets going to take care of 5 million bales of exported cotton, several hundred million pounds of exported lard, to say nothing of millions of dollars worth of exported tobacco and fruits?
>
> "Not only exporting farmers but farmers producing principally for home markets, truck gardeners,

poultrymen, dairymen, are listening for the answer to this question. They realize that if cotton farmers lose their export markets they will have to grow more corn and feed more hogs. Corn belt farmers, if they lose their foreign market for lard and pork, will have to supply themselves with butter and cheese, fruit and eggs. That means a smaller home market for the dairy farmers of Wisconsin. In fact, there's no branch of farming that wouldn't eventually feel the shock of the further loss of export markets."

Why Import Farm Products?

Can the home market be made to take up the slack? There are two possibilities to be explored. So far we haven't said anything about *imports* of farm products. American consumers and American industries now buy each year about 700 million dollars worth of foreign foodstuffs and agricultural materials. That's from 20 to 30 million dollars more than the value of our agricultural exports. Why couldn't the problem of vanishing export markets be settled simply by letting the imports vanish, too?

Here is the reply to that question of one group:

> "It looks simple, but it isn't. Upon examination we find among the imports of so-called farm products rubber, coffee, tea, raw silk, bananas, spices and cocoa beans, none of which could be produced as a practical proposition on American farms. These and other non-competitive items make up about one-half the total of agricultural imports.
>
> "The big items remaining are sugar, wool, tobacco and vegetable oils and oil seeds. American farmers can and do grow sugar, and they raise sheep. They can produce tobacco and flaxseed and cottonseed. But even if they kept out all competitive farm imports and tried to raise the products at home, they would not find a use for more than one-fourth or one-fifth of the acres they have been using to grow exports.
>
> "Expansion of domestic production to take the place of imports would mean that consumers would

have to pay more for their sugar, their woolen cloth, their cigars, their soap, their lard compound.

"Where would consumers get the additional income? They would have to cut their purchases of something. Indirectly, farmers might lose more than they gained directly."

Expansion of the Home Market

Asserting that the possibilities of expansion of the home market have not been stressed enough, one reader of this pamphlet when it was in manuscript said:

"The second possibility of relief lies in the expansion of the home market. You remarked to begin with that in our cities (and in the country as well) there are many families without enough food and clothes. If it were possible for poor people to buy all they need, farm surpluses would melt away.

"This brings farmers face to face with a very old problem—poverty. In this problem farmers have more than a distant, humanitarian interest. They have also a selfish interest in seeing the poorer classes in cities, and in the country, receive a larger share of national income. The richer classes can't be expected to increase greatly their purchases, on a per capita basis, of food and clothing. The big possibilities of increased buying in the home market are to be found in the improvement of the condition of working people. Their condition has improved greatly; we can see that when we look back 50 or 100 years."

Fewer Babies

While considering the possibilities of the home market we ought to look at the figures of population growth. Dr. O. E. Baker calls our attention to the rapid decline in the birth rate in American cities. In 1921 there were close to 3 million births in American households. In 1933 the number was 2¼ million. Taken together with declining immigration and a more nearly stationary number of deaths, the change in the birth rate means that the annual

increase in the national's population has fallen from 1,900,000 a year in 1921–23 to about 800,000 per year at present.

> "This slowing up of the increase in population", says Dr. Baker, " has meant a slower increase in consumption of farm products within the United States."

In some foreign countries, also notably England and France, the birth rate is falling, but elsewhere, in Italy and Japan, population is still increasing at a rate much more rapid than ours.

* * * * * * *

What will our Wyoming County boy say when he finishes this pamphlet? Will he still be interested in the sale of condensed milk to Belgium? Or will he pin his faith to home markets?

How will he make up his mind? He would probably reason that the policy to be chosen, whether the old policy of exporting or the new policy of self-sufficiency, should be the policy that best fitted the new conditions. He might reason that, if possible, it should fit not the conditions of the moment but the conditions that seem most likely to prevail over the next 50 years. He will have to decide whether export markets are permanently closed, owing to changed conditions of agriculture abroad and changed government policies, or whether those markets might be reopened if we were willing to lower our tariff walls. He will have to balance the gains from tariff reduction against the losses. He will have to make up his mind about the home market.

Which policy will he choose?

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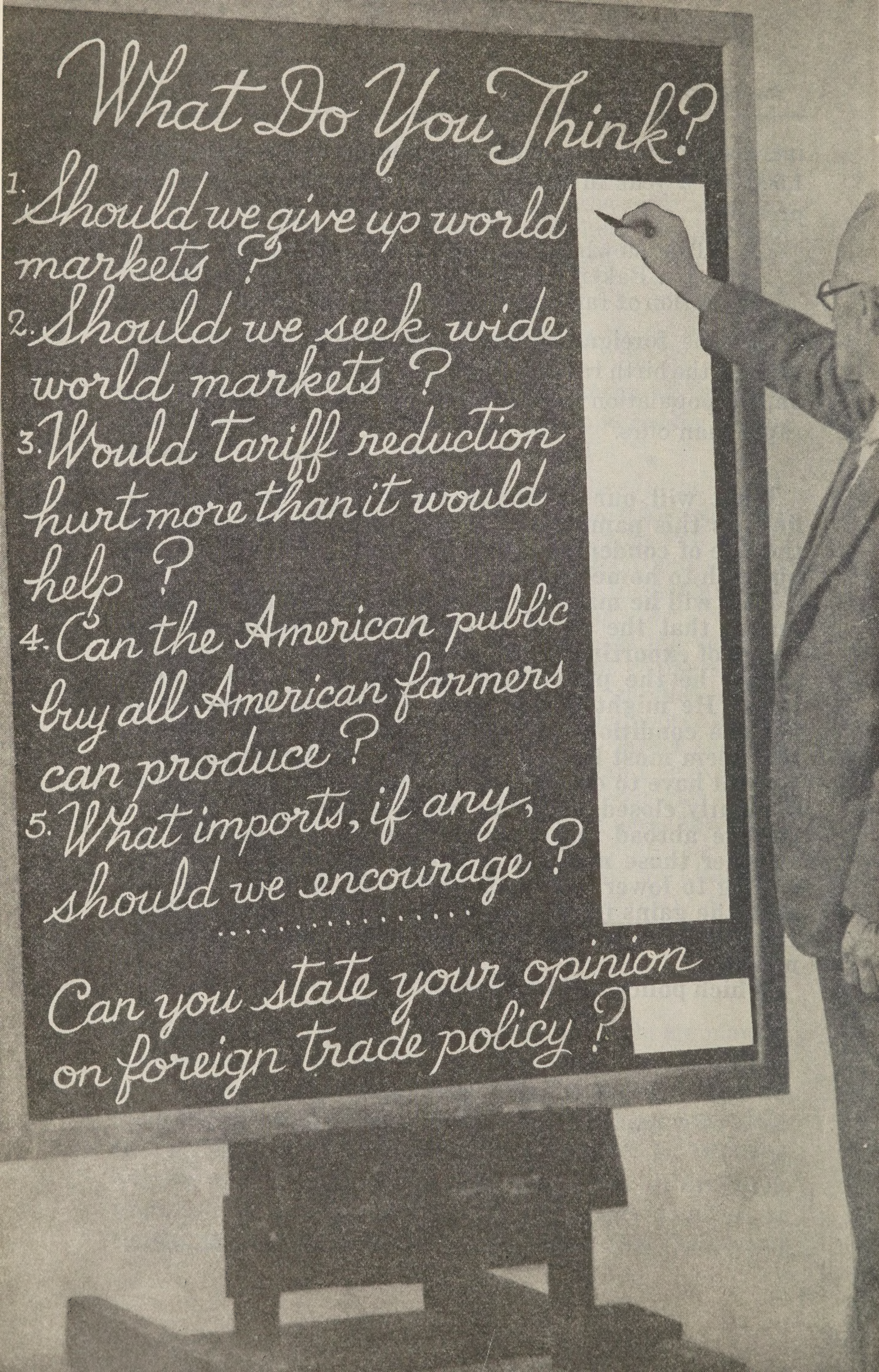
What Do You Think?
1. Should we give up world markets?
2. Should we seek wide world markets?
3. Would tariff reduction hurt more than it would help?
4. Can the American public buy all American farmers can produce?
5. What imports, if any, should we encourage?
Can you state your opinion on foreign trade policy?